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SUBJECT: NUEVO LEON'S AEROSPACE INDUSTRY LAYING THE GROUND FOR A BIG  
BLAST OFF

REF: A) 2007 MONTERREY 700; B) MONTERREY 306

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11. (SBU) Summary: The state of Nuevo Leon is having success building on its manufacturing prowess to develop a substantial aerospace sector, and now hopes to move into more value-added technology. Nuevo Leon's aerospace industry is now the second largest in Mexico, with over \$300 million in exports to the United States. Although most of the aerospace companies within the state are joint ventures that strictly manufacture components, a few have moved into engineering and design. The growth of this industry is largely due to a concerted and collaborative effort between the state's public, private and academic sectors to develop and promote an aerospace cluster. Other contributing factors include Nuevo Leon's skilled workforce, large pool of talent, relatively low wages, and proximity to the border. However, in order to compete with other states and continue to draw investors, Nuevo Leon needs to develop more certified aerospace suppliers, provide greater tax incentives and encourage more companies to move towards value-added technology. End Summary.

The Sky's the Limit

12. (U) Mexico's aerospace industry is on the move, as its global exports grew 54% from 2004 to 2006, rising from \$606 million to \$943 million. According to Bancomext, Mexico is the thirteenth exporter within the aerospace industry world-wide. Mexico also increased its exports of aerospace components to the United States from \$500 million to \$600 million from 2006 to 2007, a ten-fold increase. Mexico's aerospace imports are growing as well, up 25.6% in 2006 to \$506 million. According to Mexico's Secretariat of Economy, aerospace exports could reach \$2 billion by 2010. Though the aerospace industry in Mexico is still considered to be in its early stages, it has much room to grow. The U.S. Commercial Service recently ranked Mexico's aerospace industry as eleventh in the top 20 U.S. markets in 2007, up from seventeenth the year before. Nevertheless, Mexican aerospace manufacturers account for only 2% of the total US import market of about \$25 billion. Bancomext forecasts 10% growth in the industry for the next 5 years.

13. (U) The Mexican aerospace industry has shown large growth in players, employment and sophistication. According to Jean-Claude Bouche, an aerospace specialist with Monterrey's Technological Institute, the number of companies supplying the

aerospace industry jumped from 450 in 2004 to 650 today. The number of aerospace manufacturers has also increased, from about 65 in 2004 to about 180 today. A little over half of these have Mexican ownership, although most are joint ventures. The industry now employs about 22,500, nearly double the 12,500 employed in 2004. By the end of the decade that figure could grow to 100,000, according to a BizNews article published in September 2006. Mexico's aerospace industry is also becoming more sophisticated. Initially, it focused on manufacturing processes, building upon its automotive industry. However, it now produces everything from engine and landing system components to video systems and interiors, and it is starting to move into engineering design.

¶4. (SBU) Nuevo Leon is now the second largest aerospace cluster in the country, knocking the state of Sonora into third place. According to Luis Cabeza, Director of the Center for the Development of the Aerospace Industry in Nuevo Leon (CEDIA), there are now 20 companies linked to the aerospace industry, up from 12 in 2004, with exports to the U.S. totaling about \$320 million. In comparison, Baja California has 32 aerospace companies, and Sonora has 16 firms. Baja California's companies are primarily manufacturers, and only two provide engineering and design services. Cabeza reported that there are 30 Nuevo Leon companies nearly ready to enter the industry. For a company to fully compete within this industry, it must be certified by Nadcap (National Aerospace and Defense Contractors Accreditation Program). Currently there are only 3-4 Nadcap certified companies in Nuevo Leon. There are now about 3 aerospace companies in Nuevo Leon that are considered to be E&D (engineering and design); Frisa, ICKTAR and ATM Group. On the other hand, one of Nuevo Leon's biggest E&D aerospace companies, EG Corporation, recently stopped manufacturing aerospace components.

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Shooting for the Moon

¶5. (SBU) Since the start of his administration, Governor Jose Natividad Gonzalez Paras has been pushing Nuevo Leon to move from manufacturing to a knowledge-based economy (reftel A). For the aerospace cluster, the Citizen Advisory Council was established in 2004 to bring together the public, private and academic sectors to promote the aerospace industry in Nuevo Leon. In October 2007, Nuevo Leon founded the Center for the Development of the Aerospace Industry (CEDIA for its initials in Spanish). CEDIA is sponsored by the state government, the Nuevo Leon Secretariat of Economic Development (SEDEC), and prestigious local university Monterrey TEC. CEDIA provides consulting services to existing and potential aerospace companies, and facilitates training and certification for local companies, such as Nadcap certification. A Productive Joint Aerospacial Center (CAP) was also created to support and promote small to medium sized providers in Nuevo Leon and the northeastern region. CAP is also sponsored by Nuevo Leon, SEDEC, and Monterrey TEC. It offers discounted lab experiments in its facility at the TEC, and offers continuous education and certificates of training. Finally, Nuevo Leon last year passed a law for investment and state promotion that would allow for the provision of tax incentives to key strategic industries, including aerospace.

¶6. (U) The federal Government of Mexico has enacted various programs to encourage nationwide development of the aerospace industry. The GOM offers income tax credit on projects involving R&D, immediate capital investment deductions, income tax deductions and trade facilitation programs for export

oriented companies, and payroll tax credits. Another boost to the aerospace sector came with the passage of a U.S.-Mexico Bilateral Aviation Safety Agreement (BASA) in September 2007. This agreement will promote aviation safety, enhance cooperation and increase efficiency in matters related to civil aviation. The Mexican Association and Council of Aerospace Education (COMEA) was created in 2007 to build the human capital necessary to develop the industry. It is made up of 12 public and private academic institutions. More recently, another missing component to the industry was added with the creation of a national aerospace industry association known as FEMIA in November 2007. FEMIA is composed of aerospace companies in Mexico, such as Honeywell, Bombardier, General Electric, and Goodrich, among others, and one of its first objectives is to promote a tax incentive program. Finally, Mexico is also in the process of creating AEXA, a national space agency similar to NASA.

## The Right Stuff

17. (U) Nuevo Leon has several advantages that have helped to propel its aerospace cluster, principally its large supply of skilled workers. Thanks to its success in developing an automotive cluster, Nuevo Leon has a large pool of skilled manufacturing workers with transferrable skills. Nuevo Leon also has a large pool of talent since the state is home to 93 colleges and universities, among them Monterrey TEC and the University of Monterrey, as well as the reputable state school Universidad Autonoma de Nuevo Leon (UANL). The TEC has a program with the University of Arizona to offer a Master's degree in International Logistics, in response to the increasing demand for aerospace components made in Mexico, and UANL introduced an Aeronautics Engineering Program last summer. Nuevo Leon also boasts 5,000 engineering graduates per year. Nuevo Leon educates 11% of all engineering graduates in Mexico, and in 2006 40% of all students were engineering or technology majors. Nuevo Leon also has the competitive advantage of lower wages compared to the U.S., although these tend to be higher than in neighboring states. Lastly, Nuevo Leon's proximity to the border makes it attractive to U.S. aerospace companies looking to open a plant in Mexico.

18. (SBU) A good example of Nuevo Leon's success in the aerospace industry is the company Frisa. Previously known as Frisa/Wyman Gordon, this company started off as a joint venture

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between the Mexican company Frisa and the U.S. company Wyman Gordon, until Frisa bought out Wyman Gordon in 2006. Currently, Frisa is considered to be the second largest titanium and nickel rings producer. It began as a manufacturing company but has since moved into engineering and design (E&D). According to Eric Gonzalez, Sales Engineer, Frisa is 'not competing as a [company in a] low-cost country,' but has become a world class competitor which exports 100% of its products to the U.S. and Europe. All its engineers are homegrown from Monterrey and employee wages are comparable to those in the U.S. Gonzalez predicted Frisa would have 100% growth in 2008 and 35-40% annual growth in the next four years.

19. (SBU) Another success story is the relatively recent arrival of MD Helicopters, an American company headquartered in Arizona which opened a plant in Monterrey in September 2006. MD Helicopters plant assembles fuselages and is expanding production from 28 fuselages in 2007 to 68-69 this year, at least one per week. Ignacio Tamez, HR Manager, noted that MD Helicopters came to Monterrey because of the lower labor costs. Tamez also noted that, although it currently only assembles fuselages, they are moving to make their tools in-house. The

plant has 5 engineers, all from the U.S. Note. Frisa also started off using foreign engineers before recruiting locally. End Note.

¶10. (SBU) Ketema is a company from the neighboring city of Saltillo, Coahuila, (45 minutes away from Monterrey) that can contribute to the Nuevo Leon aerospace cluster. Ketema Senior Aerospace opened its plant in 2000, and is a UK aerospace company which produces engine structures, fluid control systems and pressure control. It is the only one-stop shop in all of Mexico, meaning it can manufacture and provide treatment for all the parts it assembles. According to General Manager Aldo Rodriguez, despite having a branch office in San Diego, Ketema chose Saltillo over Baja because it found the workforce on the border to be unstable. It also found Saltillo to have good recruiting sources. All the plant's employees, including its engineers, are from Saltillo. In addition, Rodriguez reported that the Saltillo industrial park, where the plant is located, offered good benefits, such as a Shelter Scheme that handles payroll administration and applicant screening among other things. He also noted that salaries in Saltillo are a little lower than those in Monterrey.

#### Monterrey, We Have a Problem

¶11. (SBU) Despite the proliferation of aerospace companies in Nuevo Leon, a growing issue is the lack of suppliers. Not only are there insufficient companies to provide the products and treatment needed, very few are Nadcap certified, as is required by most U.S. aerospace companies. Heat treatment companies are especially needed. Tamez of MD Helicopters reported that they have to rely on their U.S. corporate office to make and treat the pieces the plant then assembles, which can be very inefficient. He noted that there have been times when the plant was down up to 20 days waiting for these pieces to return from the U.S. Currently, there is only one Nadcap certified company in Nuevo Leon that provides heat treatment, Procesos Termicos. However, the lack of suppliers is an issue not only for Nuevo Leon but also for other states with aerospace clusters.

¶12. (SBU) Another potential disadvantage is the lack of government financial support. Although both the federal and Nuevo Leon governments actively promote the aerospace industry, industry sources complain that there has been more talk than investment. Despite Nuevo Leon's recent investment and promotion law, the amount of incentives actually offered is limited and not as generous as in other states. In fact, both Frisa and MD Helicopters reported that, although Nuevo Leon has been very supportive, they were not offered any tax incentives. Meanwhile, other states are starting to offer more attractive packages, to Nuevo Leon's detriment. Last year, Bombardier opened a plant in Queretaro. Initially, it had considered opening one in Nuevo Leon and was heavily recruited by CEDIA. In the end, Bombardier chose Queretaro, apparently because it was drawn by the federal government's decision to create an

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Aerospace Supplier Park there offering free 49-year land leases and infrastructure costs. Bombardier also joined up with a Canadian university to open an aerospace school in Queretaro. Queretaro has become a player, moving from one aerospace company in 2004 to six now, and three are firms with engineering and design (E&D). With the addition of Bombardier and its aerospace school, Queretaro is well-positioned to develop an aerospace cluster that offers more value-added technology.

¶13. (SBU) Nuevo Leon must also compete with aerospace clusters in Baja California, Sonora, and Chihuahua, among others. In all, there are nine clusters (with at least 5 companies), including Nuevo Leon. Baja California is the largest and has the advantage of being closest to California, home to many U.S. aerospace companies. Among the companies that have opened up shop in Baja are heavy-hitters such as Honeywell, General Dynamics, Tyco, and Delphi. Sonora, still considered by many to be the second biggest aerospace cluster in Mexico, also has the advantage of being close to California. It has a growing reputation among the U.S. aerospace industry developed by the 16 aerospace companies there, most of which are American. Chihuahua is another strong competitor with 10 existing aerospace companies, including Honeywell and Lockheed Martin. In a high-risk industry such as aerospace, where investors tend to follow the products, companies that have proven successful are bound to attract others. The big prize will go to whichever state manages to land the Brazilian aircraft manufacturer Embraer. Embraer representatives traveled to Mexico in the Fall of 2007, and the Nuevo Leon Secretary of the Economic Development assiduously recruited them as potential investors. To date, however, there has been no word as to when or where Embraer will touch down.

Comment: Will Nuevo Leon Achieve Escape Velocity?

¶14. (SBU) Comment. Nuevo Leon's aerospace cluster is clearly developing and, like the rest of the country, has much room to grow. Nuevo Leon would do well to follow Frisa's example in promoting itself not as a low-cost country, but as a world competitor. However, in order to continue to compete with other aerospace clusters, Nuevo Leon needs to develop more suppliers and to encourage existing and future companies to move towards engineering and design, developing a true aerospace cluster. In addition, Nuevo Leon will have to put its money where its mouth is and offer more incentives to lure future investors. The current approach of relying primarily on the private and academic sectors to promote and develop this industry in Nuevo Leon has been effective in laying the ground for an aerospace cluster, but it may not be sufficient to sustain it. End Comment.  
WILLIAMSON